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BEFORE THE ARIZONA CORPORATION
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BOB STUMP, Chairman
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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS ANTHEM
WATER DISTRICT AND ITS SUN CITY
WATER DISTRICT.

DOCKET NO. W-01303A-09-0343

ORIGINAL

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS
ANTHEM/AGUA FRIA WASTEWATER
DISTRICT, ITS SUN CITY WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

Arizona Corporation Commission

DOCKETED

OCT 06 2014

DOCKETED BY

SUMMARY OF DIRECT TESTIMONY OF DAN L. NEIDLINGER

WASTEWATER CONSOLIDATION, DECONSOLIDATION AND RELATED ISSUES

Dan L. Neidlinger testifies that:

The Anthem Community Council (the "Community Council" or "Anthem") represents the interests of over 8,800 Anthem community residents that are water and wastewater customers of EPCOR ("EPCOR" or the "Company"), formerly the Arizona-American Water Company ("AAWC"). My testimony describes Anthem's involvement in the prior phases of these proceedings, states Anthem's objection to reconsolidation of the Anthem/Agua Fria Wastewater District, and analyzes potential solutions to address high utility rates for EPCOR's Agua Fria water and wastewater

1 customers. I favor the phased-in implementation of consolidated rates for all EPCOR wastewater
2 districts.

3
4 Previous Testimony

5 In previous testimony in the initial phase of these proceedings, I recommended deferral of then
6 proposed rate base additions attributable to certain disputed refund payments, a reduced allocation
7 of the Northwest Treatment Plant costs, and changes to Staff's water and wastewater rate design
8 recommendations. I also supported full consolidation of all EPCOR wastewater districts.

9 In the Anthem/Agua Fria Wastewater District deconsolidation proceedings, I recommended a
10 three-step phase in of wastewater rate reductions to Anthem and rate increases to Agua Fria to
11 address AAWC's \$2.4 million shift in revenue responsibility from Anthem to Agua Fria. In
12 Decision No. 73227, entered on June 5, 2012, the Commission approved deconsolidation of the
13 Anthem/Agua Fria Wastewater District and adopted the three-step phase in of rates that I
14 recommended. The third and final step will become effective in January 2015.

15
16 Reconsideration of Decision No. 73227

17 After receiving numerous complaints concerning the high monthly water and wastewater billings
18 by EPCOR's Agua Fria customers, the Commission decided to reexamine its previous decision
19 regarding the deconsolidation of the Anthem/Agua Fria Wastewater District as well as its decision
20 to not approve the total consolidation of all of the Company's wastewater districts. I believe there
21 have not been any changes in the circumstances underlying the Commission's issuance of Decision
22 No. 73227 which would warrant reversing the deconsolidation of the Anthem and Agua Fria
23 wastewater districts and implementation of the deconsolidated rates as provided for in that
24 decision. The Commission knew at the time it issued Decision No. 73227 what the future rate
25 increases would be for Agua Fria wastewater rate payers under the phased-in deconsolidated rates
26 the Commission approved.

1 Position on Full Consolidation on an Interim Basis

2 Because of the long-term benefits of full consolidation, my preferred solution to address the high
3 water and wastewater bills for EPCOR's Agua Fria customers is the consolidation of all EPCOR
4 wastewater districts. On an interim basis, I recommend an initial two-step rate adjustment
5 procedure that moves wastewater rates for all five districts towards full consolidation. The smaller
6 adjustments keep in mind the ratemaking principle of gradualism. Under Step 1, Sun City and Sun
7 City West monthly bills would be increased by only \$2.87 and \$1.37, respectively. Normally, all
8 other districts would receive an across-the-board percentage reduction in monthly bills. However,
9 Anthem has agreed to no change in its January 1, 2015 Step 3 rate during this interim period. As a
10 result, customers in the Agua Fria and Mohave Wastewater Districts would receive greater-than-
11 normal bill reductions. My proposed Step 2 interim monthly bill of \$68.59 for Agua Fria is only
12 slightly greater than the \$66.22 bill under reconsolidated rates. Accordingly, Agua Fria customers
13 receive essentially the same rate relief under this interim consolidation plan as they would through
14 the reconsolidation of the Anthem and Agua Fria Wastewater Districts.

15
16 Need for Updated Data

17 With the exception of the now pending Mohave Wastewater District rate case, the information in
18 this case is based on a 2008 test year – almost six years old. Accordingly, the Commission and all
19 the parties are effectively confined to an outdated information “cocoon”. Therefore, I recommend
20 that the Company file by April 1, 2015 an updated consolidated rate filing, supported by full cost
21 of service studies, based on a calendar 2014 test year.

22
23 Position on Further Deconsolidation or other Partial Consolidation Scenarios

24 I do not support further deconsolidation of the Agua Fria Wastewater District or other partial
25 consolidation proposals that exclude one or more wastewater districts.

1 Position on other Interim Alternative Solutions

2 If the Commission rejects full consolidation, I recommend the deferral of the January 1, 2015 Step
3 3 wastewater increases to the Agua Fria district that would otherwise occur pursuant to the
4 Commission's Decision No. 73227 while allowing Step 3 rates for Anthem to be implemented in
5 accordance with that decision. This alternative has the advantage of modifying only one rate in the
6 interim.

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**IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
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ANTHEM/AGUA FRIA WASTEWATER
DISTRICT, ITS SUN CITY WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT.**

DOCKET NO. SW-01303A-09-0343

WASTEWATER CONSOLIDATION, DECONSOLIDATION AND RELATED ISSUES

A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in utility rate economics.

1 **Q2. DID YOU PREVIOUSLY FILE DIRECT AND SURREBUTTAL TESTIMONY IN**
2 **PHASE I AND PHASE II OF THIS PROCEEDING, THE STAND ALONE RATES AND**
3 **CONSOLIDATION PHASES, AND SUBSEQUENT TESTIMONY REGARDING**
4 **DECONSOLIDATION OF THE ANTHEM AND AGUA FRIA WASTEWATER**
5 **DISTRICTS?**

6 A2. Yes, I did. Copies of my testimonies in these proceedings are provided under the attached
7 cover sheet Exhibit DLN-1.
8

9 **Q3. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 A3. I am appearing on behalf of the Anthem Community Council ("Anthem"). Anthem is
11 participating in this proceeding on behalf of over 8,800 of its residents that are water and
12 wastewater customers of EPCOR ("EPCOR" or "Company"), formerly Arizona-American Water
13 Company ("AAWC").
14

15 **Q4. WHAT ARE THE PURPOSES OF YOUR DIRECT TESTIMONY AT THIS TIME?**

16 A4. My purposes are two-fold. First, Anthem would like to state for the record that it believes
17 there have not been any changes in the circumstances underlying the Commission's issuance of
18 Decision No. 73227 in June, 2012 which would warrant reversing the deconsolidation of the
19 Anthem and Agua Fria wastewater districts and implementation of the deconsolidated rates as
20 provided for in that decision. Anthem recognizes that the Commission in July of this year
21 exercised its authority under A.R.S. 40-252 to position itself, if warranted, to reconsider and amend
22 or modify Decision No. 73227. However, Anthem believes that any such amendment or
23 modification must be based on circumstances warranting a change. In this instance, the
24 Commission knew at the time it issued Decision No. 73227 what the future rate increases would be
25 for Agua Fria wastewater rate payers under the phased-in deconsolidated rates the Commission
26 approved. Thus, Anthem believes that there are no changed circumstances requiring a
27 modification or amendment of Decision No. 73227, at this time.
28

1 However, Anthem also is not insensitive to the concerns of its Agua Fria neighbors expressed in
2 the letters and petitions submitted earlier this year regarding current and projected rate levels in the
3 Agua Fria Wastewater District. Accordingly, a second purpose of my testimony addresses two
4 alternative solutions to the current controversy concerning the high water and wastewater bills
5 experienced by EPCOR's Agua Fria customers. My preferred solution is the consolidation of all
6 wastewater districts. I am recommending an initial two-step rate adjustment procedure that moves
7 wastewater rates for all five districts towards full consolidation. In the alternative, I recommend
8 the deferral of the January 1, 2015 Step 3 wastewater increases to the Agua Fria district that would
9 otherwise occur pursuant to the Commission's Decision No. 73227 while allowing Step 3 rates for
10 Anthem to be implemented in accordance with that decision.

11 12 I. BACKGROUND

13 14 Q5. PLEASE BRIEFLY DESCRIBE THE NATURE OF YOUR PREVIOUS TESTIMONY 15 IN THIS PROCEEDING.

16 A5. In my initial testimony¹ I recommended deferral of then proposed rate base additions
17 attributable to the Pulte Homes refund to mitigate rate shock. I also proposed a reduced allocation
18 of the Northwest Treatment Plant costs to the then consolidated Anthem/Agua Fria Wastewater
19 District. AAWC's filing at that time requested a 100% increase in water rates and an 82% increase
20 in wastewater rates based on a 2008 test year.

21 I filed additional testimony² during Phase II of the proceeding. My testimony discussed proposed
22 changes to Staff's water and wastewater rate design recommendations. One of the issues in that
23 phase of the case was water and wastewater consolidation for all districts. I supported
24 consolidation but recommended a five-step rate phase in procedure rather than the three-step phase
25 in proposed by the Company.

26
27
28 ¹ Direct Testimony filed March 8, 2010 and revised Exhibit filed March 15, 2010 and Surrebuttal Testimony filed April 15, 2010.

1 **Q6. WHAT WAS THE COMMISSION'S DECISION ON THESE ISSUES?**

2 A6. In Decision No. 72047, entered on January 6, 2012, the Commission adopted a Settlement
3 Agreement among the Company, Anthem, RUCO and Staff that provided for a three year phase in
4 of a 79% increase in Anthem's water rates. A 58% increase in wastewater rates for the then
5 consolidated Anthem/Agua Fria Wastewater District was also approved. The Commission also
6 accepted the Staff's 28% allocation of the Northwest Treatment Plant costs to the Anthem/Agua
7 Fria Wastewater District. Finally, the Company was ordered to make a deconsolidation rate filing
8 for the Anthem and Agua Fria districts by April 1, 2011.

9 With respect to Phase II, the Commission adopted Staff's recommended rate design for water rates
10 and a winter-average method for setting wastewater rates. The winter-average method was
11 subsequently reversed in Decision No. 73837 on April 18, 2013. Further, the Commission
12 declined to order full consolidation due to large disparities in water and wastewater rates at that
13 time.

14
15 **Q7. DID YOU ALSO PRESENT TESTIMONY IN THE ANTHEM/AGUA FRIA**
16 **DECONSOLIDATION PROCEEDING?**

17 A7. Yes. I filed direct³ and surrebuttal testimony⁴ in that proceeding. I recommended a three-
18 step phase in of wastewater rate reductions to Anthem and rate increases to Agua Fria. AAWC's
19 filing showed, on a deconsolidated basis, a \$2.4 million shift in revenue responsibility from
20 Anthem to Agua Fria.

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27 ² Direct Testimony filed May 3, 2010 and Surrebuttal Testimony filed May 18, 2010.

28 ³Direct Testimony filed August 16, 2011

⁴Surrebuttal Testimony filed October 11, 2011

1 **Q8. WHAT DID AAWC AND STAFF RECOMMEND IN THE DECONSOLIDATION**
2 **PROCEEDING?**

3 A8. AAWC and Staff were both silent on the deconsolidation issue. Intervenors representing
4 Agua Fria customers voiced objections to deconsolidation due to the large increase in rates shown
5 in AAWC's filing. They also objected to my recommended phase in of these increases. RUCO
6 supported the cost of service basis for deconsolidation.

7
8 **Q9. WHAT WAS THE COMMISSION'S DECISION ON THIS ISSUE?**

9 A9. In Decision No. 73227, entered on June 5, 2012, the Commission approved deconsolidation
10 of the Anthem/Agua Fria Wastewater District and adopted the three-step phase in of rates that I
11 recommended. The first step became effective in January 2013 and the second step on January 1
12 of this year. The third and final step will become effective in January 2015.

13
14 **Q10. WHY HAS THE COMMISSION DECIDED TO REVISIT THE**
15 **DECONSOLIDATION AND CONSOLIDATION ISSUES AT THIS TIME?**

16 A10. Agua Fria customers of the Company have not only experienced a large increase in
17 wastewater rates but also a 58% increase in water rates. These combined increases have caused the
18 Commission to be deluged with complaints from Agua Fria customers concerning the high level of
19 their monthly water and wastewater billings from EPCOR. Accordingly, the Commission has
20 decided to reexamine its previous decision regarding the deconsolidation of the Anthem/Agua Fria
21 Wastewater District as well as its decision to not approve the total consolidation of all of the
22 Company's wastewater districts. The Commission's July 30, 2014 decision⁵ on this matter did not
23 restrict the scope of the proceeding to the just mentioned issues, it also called for a discussion and
24 analysis of other avenues of relief such as the deconsolidation of all of the Company's wastewater
25 districts, possible rate design revisions, and "other alternative options". In that regard, a
26
27

28 ⁵ Decision No. 74588 Dated July 30, 2014

1 Procedural Conference was conducted on August 13, 2014 and a Procedural Order on the matter
2 was issued on August 18, 2014 to establish the framework for the current phase of the proceeding.

3 4 **II. EPCOR'S RESPONSE**

5
6 **Q11. HAVE YOU REVIEWED EPCOR'S FILING PURSUANT TO THE AUGUST 18TH**
7 **PROCEDURAL ORDER?**

8 A11. Yes. On September 8, 2014 EPCOR filed the Direct Testimonies of Shawn Bradford and
9 Sheryl L. Hubbard. Mr. Bradford is Vice President of Corporate Services for the Company and
10 Ms. Hubbard is Director of Regulatory and Rates.

11
12 **Q12. BRIEFLY OUTLINE THE CONTENT OF THE TESTIMONY OF MR. BRADFORD**
13 **AND THAT OF MS. HUBBARD.**

14 A12. Mr. Bradford's testimony discusses the CC&N history of the Company's five wastewater
15 districts and provides technical details concerning the six treatment facilities that serve the
16 customers of these districts. He advocates complete consolidation of all five wastewater districts
17 and discusses the benefits of total consolidation. He also cites the major capital improvement costs
18 the Company expects to incur for each district over the next five years.

19 Ms. Hubbard's testimony discusses and presents revised residential and commercial rates under the
20 full consolidation scenario recommended by the Company, the estimated rate impact of further
21 deconsolidation of the Agua Fria Wastewater District and the rate impact of reconsolidating the
22 Anthem/Agua Fria Wastewater District.

23
24 **Q13. WHAT IS YOUR REACTION TO THE TESTIMONY OF THESE COMPANY**
25 **WITNESSES?**

26 A13. I am in general agreement with the Company's recommendation to consolidate all of the
27 wastewater districts. However, as I shall further discuss in this testimony, I recommend much
28 smaller rate adjustments at this time towards achieving that goal, keeping in mind the ratemaking

1 principle of gradualism. The Company's proposed consolidated monthly residential rate of \$34.30
2 produces a \$16.19 per month increase in Sun City's wastewater bills and a \$74.04 per month
3 decrease in Agua Fria's wastewater bills.

4 5 **III. FRAMEWORK FOR DECISION MAKING IN THIS PROCEEDING**

6
7 **Q14. IS THE COMMISSION HANDICAPPED, IN YOUR VIEW, WITH RESPECT TO**
8 **THE INFORMATION AVAILABLE TO IT IN EVALUATING THE REASONABLENESS**
9 **OF THE ISSUES BEFORE IT IN THIS PROCEEDING?**

10 A14. Yes it is. With the exception of the now pending Mohave Wastewater District rate case, the
11 information in this case is based on a 2008 test year – almost six years old. Accordingly, the
12 Commission and all the parties are effectively confined to an outdated information “cocoon”.
13 Anthem's recent data requests to the Company for updated financial results for the Anthem and
14 Agua Fria wastewater districts were denied. Additionally, Anthem requested an estimate of overall
15 revenue increases or decreases for each wastewater district based on a twelve months ended
16 September 30, 2014 filing. The Company also denied this request.

17 As I have previously indicated in this testimony, Anthem believes that there has not been a change
18 in the fundamental circumstances and conditions surrounding and underlying the Commission's
19 issuance of Decision No. 73227 which would warrant a modification or amendment of that
20 decision at this time, based upon information currently available to the Commission. Thus, it
21 would be unsupported and unreasonable for the Commission to consider, much less order, a
22 reconsolidation of the Anthem and Agua Fria wastewater districts without the benefit of updated
23 financial results to properly evaluate the efficacy of such a decision. Further, this partial
24 reconsolidation would be contrary to the goal of achieving a total consolidation that I, as well as
25 the Company, support. Similarly, the further deconsolidation of the Agua Fria Wastewater
26 District, as discussed by Ms. Hubbard, cannot be achieved without extensive reclassifications of
27 the property and wastewater utility plant accounts.

1 **Q15. CONSIDERING THE OUTDATED NATURE OF THE DATA, WHY WOULD IT**
2 **THEN BE REASONABLE FOR THE COMMISSION TO ADOPT A CONSOLIDATION**
3 **PLAN AT THIS TIME?**

4 A15. Consolidation of all of the Company's wastewater districts may have been premature when
5 broached in 2010. However, it is time to now begin the consolidation process. The extensive
6 capital improvement program discussed by Mr. Bradford is imminent. Although I support
7 consolidation, the burden ultimately rests with the Company to make the required showing on this
8 issue, now and in a future filing. In that regard, I recommend that the Company file by April 1,
9 2015 an updated consolidated rate filing, supported by full cost of service studies, based on a
10 calendar 2014 test year. Pending a final decision on company-wide rate consolidation, my
11 proposed two-step plan discussed in Section IV of this testimony would operate in the interim.
12

13 **Q16. WOULDN'T A CALENDAR 2014 TEST YEAR CONFLICT WITH THE**
14 **COMMISSION'S PRACTICE OF TYPICALLY REQUIRING TEST YEAR REVENUES**
15 **TO INCLUDE AT LEAST SIX MONTHS OF REVISED RATES?**

16 A16. This practice is designed to prevent "pancaking" of rate cases and also to mitigate disputes
17 with respect to pro forma revenue adjustments to test year results. Neither of these issues, in my
18 view, negates the validity of using a calendar 2014 test year in this case. Except for the Mohave
19 Wastewater District, rate case "pancaking" is not applicable to the other wastewater districts.
20 Further, the pro forming of wastewater revenues for these systems is relatively straight-forward in
21 contrast to revenue pro forma adjustments for water, electric or gas utilities where weather and/or
22 conservation factors are normally considered in the pro forma calculations.
23
24

25 **IV. INTERIM CONSOLIDATION PLAN**

26
27 **Q17. DESCRIBE THE ECONOMIES OF SCALE FOR WASTEWATER TREATMENT.**
28

1 A17. The capacity cost curve per unit (gal) of wastewater treatment facilities is parabolic in
2 contrast to capacity cost curves of other utility services that are typically downward linear.
3 Accordingly, customers of small wastewater systems (less than 3,000 to 4,000 customers) are
4 required to recover through their rates much higher capital costs than the per-customer capital costs
5 of large systems. Also, the operating costs for wastewater treatment exhibit a pattern similar to
6 that shown for capital costs. Small municipalities often subsidize wastewater costs through water
7 rates, property taxes or other city revenues. For EPCOR, these subsidies are either not available, or
8 in the case of cross-subsidies through water rates, not encouraged from a cost of service standpoint.
9 Consolidation of EPCOR's wastewater districts will provide the benefits of economies of scale to
10 the customers of its smaller systems.

11
12 **Q18. ARE THERE OTHER BENEFITS TO BE ACHIEVED THROUGH**
13 **CONSOLIDATION?**

14 A18. Yes. The benefits of consolidation listed in Mr. Bradford's direct testimony mirror the
15 benefits list provided in my May 2010 direct testimony on stand-alone rate design and rate
16 consolidation that is included under Exhibit DLN-1. There is no need to itemize again this long
17 benefit list.

18
19 **Q19. HAVE YOU CHANGED YOUR OPINION ON ANY OF THE ISSUES YOU**
20 **DISCUSSED IN YOUR MAY 2010 TESTIMONY?**

21 A19. No, I have not. The recommendations I made at that time remain unchanged today.

22
23 **Q.20. IN A PREVIOUS PHASE OF THIS PROCEEDING, YOU RECOMMENDED THE**
24 **DECONSOLIDATION OF THE ANTHEM/AGUA FRIA WASTEWATER DISTRICT.**
25 **ISN'T THAT TESTIMONY IN CONFLICT WITH YOUR CURRENT POSITION THAT**
26 **SUPPORTS TOTAL CONSOLIDATION?**

27 A20. No. My May 10, 2010 testimony recommended deconsolidation of the then Anthem/Agua
28 Fria Wastewater District should the Commission decide against total consolidation of all districts.

1 Having rejected total consolidation, the Commission agreed to look at the possible deconsolidation
2 of the Anthem and Agua Fria wastewater operations. The Company's April 2011 deconsolidation
3 filing showed that Anthem was providing over \$2 million in revenue subsidies to Agua Fria
4 customers. I was surprised by the magnitude of this cross subsidy and thus recommended the
5 three-step rate adjustment plan that was subsequently adopted by the Commission. Step 3 of rate
6 adjustments under this plan are scheduled to be implemented on January 1, 2015.

7
8 **Q21. DID YOU SERIOUSLY CONSIDER OTHER POSSIBLE CONSOLIDATION**
9 **COMBINATIONS?**

10 A21. No. Other "mini consolidations" would merely, to quote a phrase, "rearrange the deck
11 chairs" and would not achieve the maximum benefits to be realized by combining all five districts.
12 For example, if Sun City is excluded from the consolidation, consolidated rates for the remaining
13 four districts jump from a total consolidated rate of \$34 per month to \$50 per month.

14
15 **Q22. IF THE COMMISSION AGAIN REJECTS TOTAL CONSOLIDATION, WOULD**
16 **FURTHER DECONSOLIDATION OF THE AGUA FRIA WASTEWATER DISTRICT BE**
17 **APPROPRIATE?**

18 A22. No. Ms. Hubbard's testimony discusses this option in some detail. Further de-
19 consolidation merely exacerbates the current problem. Her preliminary analysis (Exhibit SLH-5)
20 indicates that, with the exception of Russell Ranch, wastewater rates on a further deconsolidated
21 basis would be at or near current rate levels.

22
23 **Q23. HAVE YOU DEVELOPED AN INTERIM RATE PLAN OF CONSOLIDATION?**

24 A23. Yes. I have developed a two-step rate plan, on an interim basis, that begins the process of
25 moving the wastewater rates in all five districts towards a single set of consolidated rates.
26 Proposed residential rates under each step are shown on Exhibit DLN-2. Unlike the Company's
27 proposal to immediately adopt a postage stamp rate, this plan provides for much smaller increases
28 and decreases on an interim basis. Under Step 1, Sun City and Sun City West monthly bills would

1 be increased by only \$2.87 and \$1.37, respectively. Normally, all other districts would receive an
2 across-the-board percentage reduction in monthly bills. However, Anthem has agreed to no
3 change in its January 1, 2015 Step 3 rate during this interim period. As a result, customers in the
4 Agua Fria and Mohave Wastewater Districts would receive greater-than-normal bill reductions.
5 For instance, Agua Fria's average Step 1 bill of \$90.11 is approximately \$4 per month lower than
6 its current average monthly bill under currently authorized Step 2 rates and \$18 per month lower
7 than Step 3 rates which would begin in January 2015. My proposed Step 2 interim monthly bill of
8 \$68.59 for Agua Fria is only slightly greater than the \$66.22 bill under re consolidated rates.
9 Accordingly, Agua Fria customers receive essentially the same rate relief under this interim
10 consolidation plan as they would through the re consolidation of the Anthem and Agua Fria
11 Wastewater Districts.

12 Also of note are significant rate reductions under the plan for 225 Sun City customers and 52 Sun
13 City West customers with 1" or larger water meters.

14 A flat monthly rate is recommended for all residential customers with no volumetric component.
15 This is the same rate design as that recommended by Ms. Hubbard and is consistent with my earlier
16 testimony.

17
18 **Q24. WOULDN'T A TIMELY FILING BY THE COMPANY ALLEVIATE THE NEED**
19 **FOR STEP 2?**

20 A24. Yes. A filing using my recommended test year, calendar year 2014, could result in a true-
21 up rate decision that would partially or totally eliminate the need for Step 2.

22
23 **Q25. WHAT ABOUT COMMERCIAL RATES?**

24 A25. Interim commercial rate adjustments, except for wholesale and effluent rates, would be
25 made on an across-the-board basis. There are currently over 40 commercial rates among the five
26 districts. An in-depth analysis of these rates is beyond the scope of this proceeding. Ms. Hubbard
27 recommends combining these rates into three flat monthly flat rates. I would probably agree with
28

her recommended flat rate for small commercial customers. For most large commercial customers, however, a volumetric component should be included in the rate design.

Q26. EACH STEP OF YOUR TWO-STEP CONSOLIDATION PLAN CALLS FOR 15% RATE INCREASES FOR SUN CITY CUSTOMERS. HOW DO THESE CUSTOMERS BENEFIT FROM CONSOLIDATION?

A26. In the short-run, they don't. However, over the next five years, Sun City customers will, in all likelihood, realize consolidation benefits with respect to increased revenue requirements for anticipated plant additions at Sun City. Exhibit DLN-3 shows \$19.5 million in projected plant improvements cited by Mr. Bradford in his testimony. Plant additions for the Sun City wastewater system alone are expected to total \$9.3 million or 48% of this amount. As indicated on Exhibit DLN-3, the incremental revenue requirement on these improvements, on a stand-alone basis, is approximately \$1.6 million or 20.69% of present revenues. On a consolidated basis, the incremental revenue requirement is reduced to 11.9% of present revenues – a benefit worth about \$668,000 annually to Sun City wastewater customers.

Q27. WHAT ABOUT THE OTHER SYSTEMS THAT MUST INCUR A PORTION OF THE ADDITIONAL REVENUE REQUIREMENT ON THESE IMPROVEMENTS?

A27. By definition, the revenue decreases and increases flow both ways. For instance, Russell Ranch's package treatment plant is nearing its useful life⁶. Replacing this facility could result in large increases in wastewater rates to Russell Ranch as part of the Agua Fria Wastewater District or even greater increases to its customers on a stand-alone basis. On a consolidated basis, the costs associated with a new wastewater treatment plant for Russell Ranch would be shared among the other four districts. In some instances, the revenue impact is neutral, as shown for Sun City West on Exhibit DLN-3.

⁶ Page 15 of Bradford Testimony

1 In summary, consolidation, once achieved, provides for less frequent rate filings and smaller
2 overall rate increases to the more than 63,000 wastewater customers currently served by EPCOR.

3
4 **V. OTHER INTERIM ALTERNATIVE SOLUTIONS**

5
6 **Q28. ARE THERE ALTERNATIVES TO CONSOLIDATION THAT WOULD PROVIDE**
7 **INTERIM RATE RELIEF TO AGUA FRIA CUSTOMERS?**

8 A28. Yes. One option would be the deferral of Step 3 rates for Agua Fria, or rate freeze, with
9 recovery by the Company at a later date. The recovery would take the form of a surcharge against
10 presumably much lower rates forthcoming from the updated consolidation filing. This option was
11 detailed in a September 4th pleading by Anthem.⁷ It has the advantage of modifying only one rate
12 in the interim.

13 Further, reducing the allocation of the Northwest Treatment Plant from 28% to my recommended
14 16.5% would provide over \$400,000 in annual rate relief to Agua Fria customers. However,
15 adopting this option would be appropriate only if the Commission decides to rescind its previous
16 approval of the December 15, 2011 Settlement Agreement in this proceeding; and, such action
17 could conceivably raise legal issues. In that regard, ordering the reconsolidation of the Anthem
18 and Agua Fria districts would, in my view, indirectly rescind the Settlement Agreement and open
19 for re-examination a variety of many other issues (including legal) settled in Decision No. 72047,
20 including the allocation of the Northwest Treatment Plant costs.

21 Finally, there is the issue of wastewater rate design. The winter-average rate design concept has
22 been thoroughly discussed in previous testimony and rejected. Moreover, any change to the
23 current rate design merely shifts revenue responsibility from one group of customers to another
24 group thereby failing to provide any overall rate relief.

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28 ⁷ Anthem's Reply to EPCOR's Response to Anthem's Motion to Stay the Proceedings.

1 **Q29. IS YOUR CONSOLIDATION PLAN PREFERABLE TO THE ALTERNATIVES**
2 **DISCUSSED ABOVE?**

3 A29. Yes. It is now time to begin the consolidation process. The alternatives merely delay this
4 needed action by the Commission.
5

6 **Q30. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

7 A30. Yes, it does.
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3 for FILING this 6th day of October, 2014 to:

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6 1200 W. Washington Street
7 Phoenix, AZ 85007

8 and COPY of the foregoing mailed or e-mailed
9 this 6th day of October, 2014, to:

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EXHIBIT DLN-1



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March 8, 2010



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Re: Arizona-American Water Company
Docket No. W-01303A-09-0343 and SW-01303A-09-0343

To Whom It May Concern:

The Anthem Community Council hereby submits for filing an original and fifteen (15) copies of the prepared Direct Testimony of Dan L. Neidlinger, together with Exhibits DLN-1 and DLN-2 thereto. Copies of this testimony and exhibits will also be hand-delivered, emailed or mailed to all known parties of record in the aforesaid proceedings.

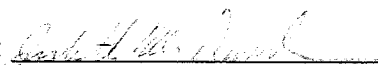
Please advise the undersigned if you have any questions regarding this transmittal or the enclosed testimony and exhibits. Thank you for your assistance.

Sincerely,

Lawrence V. Robertson, Jr.

and

Judith M. Dworkin
Sacks Tierney P.A.
Attorneys for Anthem Community Council

By: 
Judith M. Dworkin

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3
4 **COMMISSIONERS**

5 **KRISTIN K. MAYES, Chairman**
6 **GARY PIERCE**
7 **PAUL NEWMAN**
8 **SANDRA D. KENNEDY**
9 **BOB STUMP**

10 IN THE MATTER OF THE APPLICATION OF)
11 ARIZONA-AMERICAN WATER COMPANY,)
12 AN ARIZONA CORPORATION, FOR A)
13 DETERMINATION OF THE CURRENT FAIR)
14 VALUE OF ITS UTILITY PLANT AND)
15 PROPERTY AND FOR INCREASES IN ITS)
16 RATES AND CHARGES BASED THEREON FOR)
17 UTILITY SERVICE BY ITS ANTHEM WATER)
18 DISTRICT AND ITS SUN CITY WATER)
19 DISTRICT.)

DOCKET NO. W-01303A-09-0343

20 IN THE MATTER OF THE APPLICATION OF)
21 ARIZONA-AMERICAN WATER COMPANY,)
22 AN ARIZONA CORPORATION, FOR A)
23 DETERMINATION OF THE CURRENT FAIR)
24 VALUE OF ITS UTILITY PLANT AND)
25 PROPERTY AND FOR INCREASES IN ITS)
26 RATES AND CHARGES BASED THEREON FOR)
27 UTILITY SERVICE BY ITS ANTHEM/AGUA)
28 FRIA WASTEWATER DISTRICT, ITS SUN CITY)
29 WASTEWATER DISTRICT AND ITS SUN CITY)
30 WEST WASTEWATER DISTRICT.)

DOCKET NO. SW-01303A-09-0343

31
32 **DIRECT TESTIMONY OF**
33 **DAN L. NEIDLINGER**

34 **Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

35 A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive,
36 Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm
37 specializing in utility rate economics.
38

1 **Q2. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND**
2 **EXPERIENCE.**

3 A2. A summary of my professional qualifications and experience is included in the
4 attached Statement of Qualifications. In addition to the Arizona Corporation Commission
5 ("ACC" or "Commission"), I have presented expert testimony before regulatory
6 commissions and agencies in Alaska, California, Colorado, Guam, Idaho, New Mexico,
7 Nevada, Texas, Utah, Wyoming and the Province of Alberta, Canada.
8

9 **Q3. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 A3. I am appearing on behalf of the Anthem Community Council ("Anthem"). Anthem
11 has intervened in this proceeding on behalf of over 8,800 of its residents that are water and
12 wastewater customers of Arizona-American Water Company ("AAWC" or "Company").
13

14 **Q4. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
15 **CASE?**

16 A4. My testimony addresses the "rate shock" issue confronting the Commission in this
17 case as it relates to the requested water and wastewater increases for the Company's
18 Anthem District. AAWC has requested approximately a 100% increase in water rates and
19 approximately an 82% increase in wastewater rates based on a calendar 2008 test year. By
20 any standard or measure, these increases constitute rate shock that should be, in my view,
21 mitigated.

22 Before discussing this issue, I believe it is appropriate to reference certain legal arguments
23 that Anthem intends to present through its counsel during the course of this proceeding.
24 My understanding in this regard is based upon meetings I have had with Anthem
25 representatives and its counsel. More specifically, it is my understanding that Anthem
26 intends to challenge the legal basis for AAWC's proposed inclusion of the March 2008
27 \$20.2 million AIAC payment to Pulte Homes in rate base for ratemaking purposes in this
28

1 proceeding. This line of argument will be developed and presented by Anthem's counsel
2 through cross-examination of other parties' witnesses, oral argument and/or written briefs.

3
4 **Q5. ARE YOU EXPRESSING AN OPINION ON THE MERITS OF ANY LEGAL**
5 **ARGUMENTS TO BE PRESENTED BY ANTHEM IN THIS CASE?**

6 A5. No. I am not a lawyer and therefore not qualified to express an opinion on these
7 arguments.

8
9 **Q6. IS YOUR CONCERN WITH RESPECT TO RATE SHOCK IN THIS CASE**
10 **BASED SOLELY ON THE LARGE PERCENTAGE INCREASES REQUESTED?**

11 A6. No. When evaluating rate shock, one must consider not only the magnitude of the
12 percentage increase but the dollar impact. In some instances, 100% increases may equate
13 to only a few dollars per month – no rate shock. However, in this case for the Anthem
14 District, the Company is requesting a \$37 per month increase in average residential water
15 bills and a \$38 per month increase in average residential wastewater bills or a total increase
16 of \$75 per month. If approved, these increases would severely impact on the pocketbooks
17 of Anthem's residential customers, and accordingly should be viewed as rate shock.

18
19 **Q7. THE TEST YEAR IN THE COMPANY'S LAST CASE AFFECTING**
20 **ANTHEM, DOCKETS 06-0403, WAS THE CALENDAR YEAR 2005. WHAT**
21 **SIGNIFICANT CHANGES OCCURRED DURING THE THREE-YEAR PERIOD**
22 **BETWEEN RATE CASES, 2005 TO 2008, THAT GIVE RISE TO THE LARGE**
23 **INCREASES SOUGHT BY AAWC IN THIS CASE?**

24 A7. The greatest single change during this three-year period was the refunding of \$20.2
25 million of AIAC to Pulte Homes in March 2008 under the Fourth Amendment¹. The
26

27
28 ¹ Fourth Amendment to Agreement for Anthem Water/Wastewater Infrastructure dated
October 8, 2007.

1 Fourth Amendment required AAWC to refund a total of \$26.9 million -- \$20.2 million in
2 March 2008 and the remaining \$6.7 million in March 2010. The combined water and
3 sewer fair value rate base finding by the Commission in the last case, Decision 70372, was
4 \$56.4 million. Accordingly, this one refunding event during the current test year increased
5 the 2005 rate base by approximately 36%. The remaining \$6.7 refund represents an
6 additional increase of 12% over 2005 rate base amounts. The very large rate increases
7 sought in this case by the Company are to a great extent due to the 2008 Pulte AIAC
8 refund.

9
10 **Q8. HAVE YOU DEVELOPED AN ALTERNATIVE RATEMAKING**
11 **TREATMENT FOR THE PULTE REFUND THAT WOULD PARTIALLY**
12 **MITIGATE RATE SHOCK IN THIS CASE?**

13 A8. Yes. One logical approach to this problem is to remove the water and wastewater
14 plant and related accumulated depreciation associated with the 2008 Pulte refund from
15 plant in service for purposes of ratemaking in this proceeding. The net plant would be
16 "parked" or deferred and then transferred back to plant in service ratably over the five year
17 period of 2009 through 2013. The \$6.7 million refund due in March 2010 would be
18 accorded the same treatment but transferred to plant in service over the five year period of
19 2011 through 2015. Depreciation on all of the Pulte AIAC plant would be stayed until
20 reclassified to plant in service.

21
22 **Q9. HOW WOULD THIS PLANT BE RECORDED ON THE BOOKS OF AAWC?**

23 A9. Since the AIAC was used to fund infrastructure that is recorded in many separate
24 plant accounts, the most efficient accounting would be the establishment of two control
25 plant accounts: one for gross utility plant and one for accumulated depreciation. These
26 would be contra control accounts. The offsetting entries for both gross plant and
27 accumulated depreciation would be recorded in separate plant held for future use accounts.
28 Accumulated depreciation would be based on overall accumulated depreciation percentages

1 at December 31, 2008, the end of the test year. These percentages are 14.93% for water
2 plant and 17.38% for wastewater.

3
4 **Q10. HAVE YOU PREPARED AN ANALYSIS THAT ILLUSTRATES THE**
5 **IMPACT OF THIS ALTERNATIVE RATEMAKING TREATMENT ON THE**
6 **PROPOSED INCREASES IN THIS CASE?**

7 A10. Yes. As shown on the attached Exhibit DLN-1, these plant deferrals coupled with a
8 lower rate of return reduces the requested increase in water revenues from 100% to 58%.
9 Similarly, the increase in wastewater revenues is reduced from 82% to 63%. The Company
10 indicated in response to Anthem's first data request that \$14.9 million of the March 2008
11 refund was water plant and the remaining \$5.3 was wastewater plant. Applying the
12 accumulated depreciation percentages previously discussed, the net plant adjustments to
13 water and wastewater rate base are \$12.7 million and \$4.4 million, respectively, as
14 indicated in the "Adjustments" column on Exhibit DLN-1.

15
16 **Q11. HOW WERE THE WATER AND WASTEWATER DEPRECIATION**
17 **ADJUSTMENTS CALCULATED?**

18 A11. Composite depreciation rates of 2.80% for water plant and 2.92% for wastewater
19 plant were used to calculate the depreciation adjustments. These adjustments, net of
20 income taxes, increase test year operating income for water by \$257,236 and test year
21 operating income for wastewater by \$96,142, as shown on Exhibit DLN-1.

22
23 **Q12. WHY DID YOU ADJUST THE RATE OF RETURN DOWNWARDLY**
24 **FROM AAWC'S 8.53% TO 7.33%, AS SHOWN IN THE "ADJUSTMENTS"**
25 **COLUMN ON EXHIBIT DLN-1?**

26 A12. For illustrative purposes, I have used the rate of return determination of the
27 Commission in Docket No. W-01303A-08-0227 et al, Decision No. 7140. In this very
28

1 recent case encompassing the Company's other districts, the Commission adopted an
2 overall cost of capital of 7.33%.

3
4 **Q13. PLEASE EXPLAIN EXHIBIT DLN-2.**

5 A13. Exhibit DLN-2 shows a schedule of projected transfers of net deferred plant to
6 plant in service from 2009 through 2015. The exhibit includes the additional \$6.7 final
7 refund installment due in March 2010. As demonstrated on this schedule, the alternative
8 ratemaking treatment I am suggesting provides for gradual increases in rate base in contrast
9 to the sudden and dramatic increases in rate base shown in this filing that, in my view, are
10 largely responsible for the resulting rate shock.

11
12 **Q14. DOES EXHIBIT DLN-2 ADDRESS WHAT THE ACCOUNTING**
13 **TREATMENT WOULD BE IF ANTHEM PREVAILED ON THE LEGAL**
14 **ARGUMENTS TO WHICH YOU REFERED IN YOUR ANSWER NO. 4?**

15 A14. No, it does not.
16

17 **Q15. DO YOU HAVE ANY RECOMMENDATIONS AT THIS TIME WITH**
18 **RESPECT TO RATE CONSOLIDATION?**

19 A15. No. On February 10, 2010 I attended a briefing by the Company on a rate
20 consolidation model it has developed but have not examined either the model or other
21 aspects of this issue to the degree necessary to provide specific recommendations at this
22 time. It is my understanding that the Staff will be providing recommendations on the
23 consolidation issue in connection with its rate design testimony in this case. I may have
24 specific comments to make in subsequent testimony on the subject of rate consolidation
25 after reviewing Staff's recommendations and those of the Company and RUCO and
26 consultation with my client.
27
28

1 Based on my review of the filing in this case, however, I can conclude at this time that
2 consolidation would provide for more equity with respect to recovery of certain common
3 expenses.

4
5 **Q16. PLEASE EXPLAIN.**

6 A16. The Company, for instance, allocated through the application of its 4 factor formula
7 \$1,158,078 in management fees to Anthem Water and \$1,509,322 to Sun City Water. This
8 allocation results in an annual management fee charge to Anthem of \$136 per customer or
9 double the \$66 per customer charge to Sun City. While recognizing certain economies of
10 scale with respect to fixed overhead costs, I view this large differential as unrealistic and
11 unsupportable. A similar anomaly is observed with respect to the allocation of customer
12 accounting expenses. Customer accounting expenses are essentially all customer-related.
13 The annual per-customer charge to Anthem Water for customer accounting is \$21 in
14 contrast to only \$10 for Sun City Water. Rate consolidation would largely eliminate these
15 cost allocation imbalances.

16
17 **Q17. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A17. Yes, it does.
19
20
21
22
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28

EXHIBIT DLN-1

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

Rate of Return and Utility Plant Adjustments to Partially Mitigate Rate Shock

DESCRIPTION	AS FILED (1)	ADJUSTMENTS	ADJUSTED AMOUNT
WATER:			
Rate Base (2)	\$57,431,984	-\$12,666,752	\$44,765,232
Adjusted Operating Income (3)	439,964	257,236	697,200
Required Rate of Return (4)	8.53%	-1.20%	7.33%
Operating Income Reqmt.	4,898,948		3,281,292
Operating Income Def.	4,458,984		2,584,092
Gross Rev. Conv. Factor	1.6578		1.6578
Increase in Gross Revenues	7,392,104		4,283,907
Adjusted Test Year Revenues	7,356,987		7,356,987
Revenue Increase Percentage	100.48%		58.23%
WASTEWATER:			
Rate Base (5)	\$47,735,732	-\$4,408,870	\$43,326,862
Adjusted Operating Income (6)	-191,785	96,142	-95,643
Required Rate of Return (4)	8.53%	-1.20%	7.33%
Operating Income Reqmt.	4,071,858		3,175,859
Operating Income Def.	4,263,643		3,271,502
Gross Rev. Conv. Factor	1.6561		1.6561
Increase in Gross Revenues	7,061,019		5,417,934

Adjusted Test Year Revenues	8,637,123	8,637,123
Revenue Increase Percentage	81.75%	62.73%

NOTES:

- (1) Per Company Filing
- (2) Pulte Refund - Gross Utility Plant \$14,889,799 Less Accumulated Depreciation (14.93%) of \$2,223,047
- (3) 2008 Depreciation (2.80%) of \$416,914 less Income Taxes (38.3%) of \$159,678
- (4) Adjustment to Reduce Rate of Return to 7.33% per ACC Rate of Return Finding in Decision No. 71410
- (5) Pulte Refund - Gross Utility Plant \$5,336,323 Less Accumulated Depreciation (17.38%) of \$927,453
- (6) 2008 Depreciation (2.92%) of \$155,821 less Income Taxes (38.3%) of \$59,679

EXHIBIT DLN-2

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

Projected Annual Transfers of Net Deferred Plant to Plant in Service

PROJECTED YEAR	DEFERRED NET UTILITY PLANT		
	BEGINNING BALANCE	ADDITIONS (1)	TRANSFERS TO PLANT IN SER.
WATER:			
2009	\$12,666,752		-\$2,533,350
2010	10,133,402	\$4,104,541	-2,533,350
2011	11,704,593		-3,354,259
2012	8,350,334		-3,354,259
2013	4,996,075		-3,354,259
2014	1,641,816		-820,908
2015	820,908		-820,908
			0
			\$10,133,402
			11,704,593
			8,350,334
			4,996,075
			1,641,816
			820,908
WASTEWATER:			
2009	\$4,408,870		-\$881,774
2010	3,527,096	\$1,397,086	-881,774
2011	4,042,408		-1,161,191
2012	2,881,217		-1,161,191
2013	1,720,026		-1,161,191
2014	558,835		-279,417
			\$3,527,096
			4,042,408
			2,881,217
			1,720,026
			558,835
			279,418

2015	279,418	-279,418	0
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NOTES:

(1) March 2010 Pulte Refund:

Water: Gross Utility Plant (74%) of \$4,989,110 Less Accumulated Depreciation (17.73%) of \$884,569

Wastewater: Gross Utility Plant (26%) of \$1,752,931 Less Accumulated Depreciation (20.30%) of \$355,845

DAN L. NEIDLINGER

SUMMARY STATEMENT OF QUALIFICATIONS

I. General:

Mr. Neidlinger is President of Neidlinger & Associates, Ltd., a Phoenix consulting firm specializing in utility rate economics and financial management. During his consulting career, he has managed and performed numerous assignments related to utility ratemaking and energy management.

II. Education:

Mr. Neidlinger was graduated from Purdue University with a Bachelor of Science degree in Electrical Engineering. He also holds a Master of Science degree in Industrial Management from Purdue's Krannert Graduate School of Management. He is a licensed Certified Public Accountant in Arizona and Ohio.

III. Consulting Experience:

Mr. Neidlinger has presented expert testimony on financial, accounting, cost of service and rate design issues in regulatory proceedings throughout the western United States involving companies from every segment of the utility industry. Testimony presented to these regulatory bodies has been on behalf of commission staffs, applicant utilities, industrial intervenors and consumer agencies. He has also testified in a number of civil litigation matters involving utility ratemaking and once served as a Special Master to a Nevada court in a lawsuit involving a Nevada public utility.

Mr. Neidlinger has performed feasibility studies related to energy management including cogeneration, self-generation, peak shaving and load-shifting analyses for clients with large electric loads. In addition, he has consulted with U.S. Army installations on privatization of utility systems and assisted these and other consumer clients in contract negotiations with utility providers of electric, gas and wastewater service.

Mr. Neidlinger has extensive experience in the costing and pricing of utility services. During his consulting career, he has been responsible for the design and implementation of utility rates for numerous electric, gas, water and wastewater utility clients ranging in size from 50 to 30,000 customers.

IV. Professional Affiliations:

Professional affiliations include the American Institute of Certified Public Accountants.

BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM WATER
DISTRICT AND ITS SUN CITY WATER
DISTRICT.

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM/AGUA
FRIA WASTEWATER DISTRICT, ITS SUN CITY
WASTEWATER DISTRICT AND ITS SUN CITY
WEST WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

**ANTHEM COMMUNITY
COUNCIL'S NOTICE OF FILING
OF REVISED EXHIBIT**

By means of this submittal, the Anthem Community Council ("Anthem") hereby provides notice of its filing of a revised exhibit in the above-captioned and above-docketed proceedings in connection with the previously-filed prepared Direct Testimony of Dan L. Neidlinger. On March 8, 2010, Anthem filed the aforesaid testimony and exhibits thereto of its witness Dan L. Neidlinger. Shortly thereafter, Mr. Neidlinger became aware of information filed in August 2009 by Arizona-American Water Company ("AAWC") which supplemented the July 2, 2009 prepared Direct Testimony of AAWC witness Thomas Broderick. This supplemental information occasioned a change in Mr. Neidlinger's Exhibit

1 DLN-1. The results of that change have been reflected in Revised Exhibit DLN-1, a copy
2 of which is attached hereto and incorporated herein by this reference; and the effect of such
3 revision is to reduce the 58.23% increase in water rates shown on the original exhibit to
4 55.59%.

5 Revised Exhibit DLN-1 will be substituted for Exhibit DLN-1 during the evidentiary
6 hearings which are currently scheduled to commence in the above-captioned and above-
7 docketed proceedings on April 19, 2010. There are no changes to the wastewater analysis.

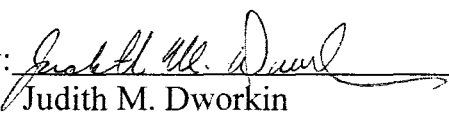
8 DATED this 12th day of March 2010.

9 Respectfully submitted,

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11 Sacks Tierney PA
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13 Scottsdale, Arizona 85251-3693

14 and

15 Lawrence V. Robertson, Jr.
16 P.O. Box 1448
17 Tubac, Arizona 85646-1448

18 By: 
19 Judith M. Dworkin
20 Attorneys for Anthem Community Council
21

22 The original and fifteen (15) copies of the
23 foregoing Notice are being mailed
24 this 12th day of March, 2010 to:

25 Docket Control
26 Arizona Corporation Commission
27 1200 West Washington Street
28 Phoenix, AZ 85007

1 A copy of the foregoing Notice is being
2 mailed or emailed this same date to:

3 Teena Wolfe, Administrative Law Judge
4 Hearing Division
5 Arizona Corporation Commission
6 1200 W. Washington
7 Phoenix, AZ 85007

8 All parties of record

9 Wendy Petersa

EXHIBIT DLN-1
Revised 3-10-10

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

Rate of Return and Utility Plant Adjustments to Partially Mitigate Rate Shock

DESCRIPTION	AS FILED (1)	ADJUSTMENTS	ADJUSTED AMOUNT
WATER:			
Rate Base (2)	\$57,430,024	-\$12,666,752	\$44,763,272
Adjusted Operating Income (3)	514,449	257,236	771,685
Required Rate of Return (4)	8.53%	-1.20%	7.33%
Operating Income Reqmt.	4,898,781		3,281,148
Operating Income Def.	4,384,332		2,509,463
Gross Rev. Conv. Factor	1.6578		1.6578
Increase in Gross Revenues	7,268,346		4,160,187
Adjusted Test Year Revenues	7,483,274		7,483,274
Revenue Increase Percentage	97.13%		55.59%
WASTEWATER:			
Rate Base (5)	\$47,735,732	-\$4,408,870	\$43,326,862
Adjusted Operating Income (6)	-191,785	96,142	-95,643
Required Rate of Return (4)	8.53%	-1.20%	7.33%
Operating Income Reqmt.	4,071,858		3,175,859
Operating Income Def.	4,263,643		3,271,502
Gross Rev. Conv. Factor	1.6561		1.6561
Increase in Gross Revenues	7,061,019		5,417,934

Adjusted Test Year Revenues	8,637,123	8,637,123
Revenue Increase Percentage	81.75%	62.73%

NOTES:

- (1) Per Company Original Wastewater Filing and Revised Water Filing
- (2) Pulte Refund - Gross Utility Plant \$14,889,799 Less Accumulated Depreciation (14.93%) of \$2,223,047
- (3) 2008 Depreciation (2.80%) of \$416,914 less Income Taxes (38.3%) of \$159,678
- (4) Adjustment to Reduce Rate of Return to 7.33% per ACC Rate of Return Finding in Decision No. 71410
- (5) Pulte Refund - Gross Utility Plant \$5,336,323 Less Accumulated Depreciation (17.38%) of \$927,453
- (6) 2008 Depreciation (2.92%) of \$155,821 less Income Taxes (38.3%) of \$59,679

RECEIVED
BEFORE THE ARIZONA CORPORATION COMMISSION

2009 APR 15 P 3:38

AZ UTIL CORP.
DOCKET CONTROL

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM WATER
DISTRICT AND ITS SUN CITY WATER
DISTRICT.

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM/AGUA
FRIA WASTEWATER DISTRICT, ITS SUN CITY
WASTEWATER DISTRICT AND ITS SUN CITY
WEST WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

**SURREBUTTAL TESTIMONY OF
DAN L. NEIDLINGER**

Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive,
Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm
specializing in utility rate economics.

1 Q2. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS PROCEEDING?

2 A2. Yes, I did.

3

4 Q3. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

5 A3. I am appearing on behalf of the Anthem Community Council ("Anthem"). Anthem
6 has intervened in this proceeding on behalf of over 8,800 of its residents that are water and
7 wastewater customers of Arizona-American Water Company ("AAWC" or "Company").

8

9 Q4. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

10 A4. First, my testimony responds to the March 22, 2010 Rebuttal Testimony of Paul G.
11 Townsley on behalf of the Company regarding rate base deferral recommendations made
12 by me in my March 8, 2010 Direct Testimony associated with the \$20.2 million Pulte
13 refund payment. Second, I discuss the direct testimony recommendations of Staff witness
14 Dorothy Hains with respect to the allocation of the plant and operating costs of the
15 Northwest Valley Regional Treatment Facility ("Northwest Plant"). In that regard, I am
16 recommending that Anthem/Agua Fria district receive a much lower allocation percentage
17 than the 28% recommended by Ms. Hains. My proposed adjustments with respect to this
18 plant are also applicable to and thus reduce the rate base recommendations of the Company
19 and RUCO as well. Finally, I discuss the revenue effect of incorporating this adjustment
20 plus the rate base deferral adjustments discussed in my direct testimony with the revenue
21 requirements recommendations of Staff, RUCO and the Company, as revised in its April 5,
22 2010 rebuttal filing.

23

24 Q5. WHAT ARE YOUR COMMENTS WITH RESPECT TO THE REBUTTAL
25 TESTIMONY OF MR. TOWNSLEY?

26 A5. The major issue discussed in my direct testimony is the rate shock embodied in the
27 Company's water and wastewater rate requests. The "rate relief benefits" referred to by
28 Mr. Townsley at page 10, lines 1-10 of his testimony do not meaningfully address the rate

1 shock resulting from the \$20.2 million payment to Pulte; and, he did not proffer any
2 alternative rate shock mitigation ideas. He apparently views rate increases in the range of
3 62% for wastewater to 80% for water as reasonable. I strongly disagree.

4
5 Q6. MR. TOWNSLEY STATES THE FOLLOWING AT LINE19, PAGE 10, OF HIS
6 REBUTTAL TESTIMONY: "Under Mr. Neidlinger's proposal, Arizona-American's
7 shareholder will not receive a full return on its investment until 2015 which is
8 approximately seven years after the investment was made." WHAT IS YOUR
9 RESPONSE?

10 A6. By definition, my proposed ratemaking treatment of the \$20.2 million Pulte refund
11 payment in 2008 defers the return on this investment into the future. However, Mr.
12 Townsley did not mention the fact that the Company will have an opportunity to begin
13 earning a return on increasing percentages of this investment prior to 2015. Under my
14 proposal, 40% or \$8 million of the refund would be transferred to plant in service this year
15 – 2010. Accordingly, in is conceivable that the Company could be earning a return on this
16 portion of the refund by the year 2012. Similarly, 80% or \$16 million of the refund would
17 be eligible for return by the end of 2012 thereby enabling the Company to be earning a
18 return on the bulk of the refund by the year 2014.

19
20 Q7. DOES THE FACT THAT NEITHER THE STAFF NOR RUCO RECOMMENDED
21 RATE BASE DEFFERALS, AS MENTIONED ON PAGE 9 OF MR. TOWNSLEY'S
22 REBUTTAL TESTIMONY, CHANGE YOUR OPINION WITH RESPECT TO YOUR
23 RECOMMENDATIONS ON THIS ISSUE?

24 A7. No. The fact that neither party recommended this approach does not invalidate the
25 concept. As discussed later in my testimony, the revenue increases recommended by both
26 the Staff and RUCO do not address or propose to resolve the rate shock issue.

1 Northwest Plant in previous cases. Accordingly, as indicated on Exhibit DLN-1, I have
2 calculated a recommended growth rate of 111 customers per year for the four year period
3 of 2010 through 2013. This rate of growth is the average customer growth rate for the
4 years 2007 through 2009 and is, in my view, much more realistic than Staff's projection
5 since it better reflects the conditions in the housing market now and in the foreseeable
6 future.

7
8 Q13. PLEASE EXPLAIN EXHIBIT DLN-2.

9 A13. Exhibit DLN-2 shows the calculation details supporting Staff's 28% allocation
10 percentage and my recommended allocation percentage of 16.5% (rounded up from the
11 16.41% calculated percentage). My calculation assumptions for maximum peak day flows
12 per customer are the same as those used by Ms. Hains. The only variant is the change in
13 the forecasted customer growth rate.

14
15 Q14. WHY HAS STAFF USED A 28% ALLOCATION FACTOR WHEN THE
16 CALCULATIONS ON EXHIBIT DLN-2 SHOW A 26.94% FACTOR?

17 A14. That question was asked in Anthem's Data Request 2.1 to Staff. Staff responded
18 that per-customer maximum daily flows for NEAF appear to be increasing, relative to Sun
19 City West, and the allocation factor accordingly was adjusted upwardly to 28%. However,
20 no revised calculations were provided by Staff to support this adjustment.

21
22 Q15. HAVE YOU CALCULATED THE EFFECT OF YOUR REVISED
23 ALLOCATION PERCENTAGE ON THE RATE BASE AND OPERATING INCOME
24 RECOMMENDATIONS OF THE COMPANY, STAFF AND RUCO FOR THE
25 ANTHEM/AGUA FRIA WASTEWATER DISTRICT?

26 A15. Yes. Adjustments to reduce rate base and increase operating income due to the
27 lowering of the allocation factor to 16.5% are shown on Exhibit DLN-3. A reduction of
28 approximately \$2.5 million is proposed for Staff's rate base and the Company's rebuttal

1 rate base. A larger reduction, approximately \$3.3 million, is proposed for RUCO's rate
2 base since it includes 32% of the Northwest Plant. Corresponding increases to operating
3 income are \$127,316 for Staff and Company and \$253,935 for RUCO.
4 Exhibit DLN-4 shows the effect on revenue requirements of combining the Northwest Plant
5 adjustment and the 2008 Pulte adjustment. As indicated on that schedule, these
6 adjustments reduce Staff's proposed wastewater increase from 58% to 45%. RUCO's
7 proposed increase is reduced from 61% to 46% and the Company's proposed increase of
8 61% is reduced to 49%.

9
10 Q16. WHAT DOES EXHIBIT DLN-5 SHOW?

11 A16. Exhibit DLN-5 provides a comparison of Anthem Water revenue requirement
12 recommendations of Staff, RUCO and Company rebuttal with the proposed increases after
13 making the Pulte refund adjustments discussed in my direct testimony. The rate base
14 deferral of the Pulte refund reduces the revenue requirements for Anthem Water by 22% to
15 23% thereby somewhat mitigating rate shock in this case. In my view, there remains a
16 fairly significant amount of rate shock even at the adjusted levels of increase shown on
17 Exhibits DLN-4 & 5. Staff, RUCO and the Company have done very little to deal with this
18 problem. Their rate increase proposals remain at extremely high levels ranging from 58%
19 for wastewater to 80% for water.

20
21 Q17. HAS THE COMPANY CHANGED ITS POSITION IN THIS CASE WITH
22 RESPECT TO THE DE-CONSOLIDATION OF WASTEWATER RATES FOR
23 ANTHEM AND AGUA FRIA?

24 A17. Yes. The Company's initial filing in the 08-0227 case included a proposal to de-
25 consolidate the wastewater rates for Anthem and Agua Fria. Apparently, at Staff's request,
26 the Anthem/Agua Fria Wastewater District rate request was pulled from that filing and
27 refilled in this case on a consolidated basis. As discussed in the revised direct testimony of
28 Company witness Thomas Broderick in this case, de-consolidation would not make sense

1 in view of the Commission's directive to evaluate the feasibility of rate consolidation
2 among all of the districts. I agree with Mr. Broderick's logic. However, should
3 consolidation of rates among AAWC's wastewater districts not be achieved in this case, the
4 de-consolidation issue should be revisited as part of any final Commission decision in this
5 proceeding.

6
7 Q18. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

8 A18. Yes, it does.
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12 COPY of the foregoing mailed
13 this 15th day of April, 2010, to:

14 Larry Woods, President
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28

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

NORTHWEST WW PLANT ALLOCATION
Anthem/Agua Fria & Sun City West Customer Growth Rates

DESCRIPTION	END OF YEAR	NEAF CUST. (1)	CUST. GRTH.	% GRTH.	SC WEST CUST. (1)	CUST. GRTH.	% GRTH.
HISTORICAL:	2004 (2)	602			14,920		
	2005	1,079	477	79.24%	14,931	11	0.07%
	2006	2,581	1,502	139.20%	14,978	47	0.31%
	2007	2,875	294	11.39%	14,985	7	0.05%
	2008	2,816	-59	-2.05%	14,968	-17	-0.11%
	2009	2,914	98	3.48%	14,962	-6	-0.04%
STAFF PROJECTIONS:	2009	3,520	704	25.00%	14,982	14	0.09%
	2010	4,224	704	20.00%	14,996	14	0.09%
	2011	4,928	704	16.67%	15,010	14	0.09%
	2012	5,632	704	14.29%	15,024	14	0.09%
	2013	6,336	704	12.50%	15,038	14	0.09%
REVISED PROJECTIONS: (3)	2009	2,914	98	3.48%	14,962	-6	-0.04%
	2010	3,025	111	3.81%	14,962	0	0.00%
	2011	3,136	111	3.67%	14,962	0	0.00%
	2012	3,247	111	3.54%	14,962	0	0.00%
	2013	3,358	111	3.42%	14,962	0	0.00%

NOTES:

- (1) Historical Year End Northeast Agua Fria ("NEAF") Customers for Years 2005 Through 2009 Per Company Responses to Anthem Data Requests 4.8 and 4.9.
- (2) 2004 Year End Customers Per Staff Engineering Report in Docket WS-01303A-06-0491; NEAF Customer Count is January 2005.
- (3) Projected 2010 Through 2013 Customer Growth for NEAF Based on Average Growth for Three Years of 2007 Through 2009; Sun City West Projected Growth Rate is Flat.

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

NORTHWEST WW PLANT ALLOCATION
Calculation of Allocation Percentages

DESCRIPTION	AMOUNT	PERCENT
<u>STAFF ALLOCATION PERCENTAGES (1)</u>		
NORTHEAST AGUA FRIA ("NEAF"):		
Number of Customers at End of Test Year (2008)	2,816	
Estimated Annual Growth (2005-2008) (2,816/4)	704	
5 Year Projected Growth (704*5 yrs)	3,520	
Projected Number of Customers in 2013 (2,816+3,520)	6,336	
Maximum Peak Daily Flow During Test Year (gpd/c)	168	
Projected Maximum Flow - 2013	1,064,448	26.94%
SUN CITY WEST:		
Number of Customers at End of Test Year (2008)	14,968	
Estimated Annual Growth (2005-2008)	14	
5 Year Projected Growth (14*5 yrs)	70	
Projected Number of Customers in 2013 (2,816+3,520)	15,038	
Maximum Peak Daily Flow During Test Year (gpd/c)	192	
Projected Maximum Flow - 2013	2,887,296	73.06%
Combined Maximum Flow - Northwest Plant	3,951,744	100.00%
<u>RECOMMENDED ALLOCATION PERCENTAGES (2)</u>		
NORTHEAST AGUA FRIA ("NEAF"):		
Number of Customers at End of Test Year (2009)	2,914	
Estimated Annual Growth (2007-2009) (333/3)	111	
4 Year Projected Growth (111*4 yrs)	444	
Projected Number of Customers in 2013 (2,914+444)	3,358	
Maximum Peak Daily Flow During Test Year (gpd/c)	168	
Projected Maximum Flow - 2013	564,144	16.41%
SUN CITY WEST:		
Number of Customers at End of Test Year (2008)	14,962	
Estimated Annual Growth (2007-2009) (-16/3)	-5	
4 Year Projected Growth (0*4 yrs)	0	
Projected Number of Customers in 2013 (14,962+0)	14,962	
Maximum Peak Daily Flow During Test Year (gpd/c)	192	
Projected Maximum Flow - 2013	2,872,704	83.59%
Combined Maximum Flow - Northwest Plant	3,436,848	100.00%

NOTES:

- (1) Per Schedule DMH-1 Appended to Staff Response to Anthem Data Request 1.1
- (2) Based on Projections Shown on Surrebuttal Exhibit DLN-1

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

NORTHWEST WW PLANT ALLOCATION
Proposed Rate Base and Operating Income Adjustments to Company, Staff & RUCO

PLANT ADJUSTMENT		FILED	STAFF		ADJUST.	ADJUST.	
DESCRIPTION	UTILITY PLT. CST. (1)	32% ALLOC.	28% ALLOC (1)	16.5% ALLOC.	TO STAFF & CO. (2)	TO RUCO	DEPR. ADJ. (3)
Northwest WW Plant	\$25,995,575	\$8,318,584	\$7,278,761	\$4,289,270	-\$2,989,491	-\$4,029,314	
Accumulated Depreciation (4)	-4,411,709	-1,411,747	-1,235,279	-727,932	507,347	683,815	
Net Plant	\$21,583,866	\$6,906,837	\$6,043,482	\$3,561,338	-\$2,482,145	-\$3,345,499	
Depreciation Adj. - Staff & Co.							-\$134,826
Depreciation Adj. - RUCO							-\$181,722

NOTES:

- (1) Per Staff Schedule GTM-5
- (2) Adjusted to Company Rebuttal Rate Base
- (3) Staff Composite Depreciation Rate of 4.51% for the Northwest Plant
- (4) Staff Adjusted Accumulated Depreciation for the Northwest Plant of 16.971%

OPERATING INC. ADJ.					ADJUST.	ADJUST.
DESCRIPTION	TOTAL PLT. COSTS (1)	32% ALLOC.	28% ALLOC	16.5% ALLOC.	TO STAFF & CO. (2)	TO RUCO
Labor	\$439,680	\$140,698	\$123,110	\$72,547	-\$50,563	-\$68,150
Purchased Water	46,939	15,020	13,143	7,745	-5,398	-7,276
Fuel & Power (3)	373,211	119,428	60,492	60,492	0	-58,936
Chemicals (3)	414,181	132,538	57,985	57,985	0	-74,553
Management Fees	151,361	48,436	42,381	24,975	-17,407	-23,461
Group Insurance	1,351	432	378	223	-155	-209
Rents	22,082	7,066	6,183	3,644	-2,539	-3,423
General Office Expense	9,819	3,142	2,749	1,620	-1,129	-1,522
Miscellaneous	199,988	63,996	55,997	32,998	-22,999	-30,998
Maintenance Expense	153,567	49,141	42,999	25,339	-17,660	-23,803
Depreciation					-134,826	-181,722
Income Taxes (4)					125,361	220,117
Net Operating Expense Adjust.					-\$127,316	-\$253,935
Operating Income Adjust.					\$127,316	\$253,935

NOTES:

- (1) Per Staff Schedule GTM-12
- (2) Adjusted to Company Rebuttal Operating Income
- (3) Staff Variable Cost Allocation Based on 14% Flows
- (4) Adjusted for the Effect of Interest Synchronization

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

ANTHEM/AGUA FRIA WASTEWATER DISTRICT
Comparison of Staff, RUCO and Company Revenue Requirements With Proposed Adjusted Amount

DESCRIPTION	RECOMMENDED PER FILINGS	NW PLANT ADJUST. (1)	PULTE ADJUST. (2)	ADJUSTED AMOUNT
STAFF: (3)				
Rate Base	\$44,359,326	-\$2,482,145	-\$4,408,870	\$37,468,311
Adjusted Operating Income	169,900	127,316	45,483	342,699
Required Rate of Return	7.20%			7.20%
Required Operating Income	3,193,871			2,697,718
Operating Income Deficiency	3,023,971			2,355,019
Gross Revenue Conversion Factor	1.6561			1.6561
Required Revenue Increase	5,007,999			3,900,148
Adjusted Test Year Revenues	8,637,123			8,637,123
Percentage Increase in Revenues	57.98%			45.16%
RUCO: (4)				
Rate Base	\$47,558,242	-\$3,345,499	-\$4,408,870	\$39,803,873
Adjusted Operating Income	23,202	253,935	45,483	322,620
Required Rate of Return	6.77%			6.77%
Required Operating Income	3,219,693			2,694,722
Operating Income Deficiency	3,196,491			2,372,102
Gross Revenue Conversion Factor	1.6561			1.6561
Required Revenue Increase	5,293,709			3,928,438
Adjusted Test Year Revenues	8,634,567			8,634,567
Percentage Increase in Revenues	61.31%			45.50%
COMPANY: (5)				
Rate Base	\$45,416,602	-\$2,482,145	-\$4,408,870	\$38,525,587
Adjusted Operating Income	88,073	127,316	45,483	260,872
Required Rate of Return	7.20%			7.20%
Required Operating Income	3,269,995			2,773,842
Operating Income Deficiency	3,181,922			2,512,970
Gross Revenue Conversion Factor	1.6683			1.6683
Required Revenue Increase	5,308,401			4,192,388
Adjusted Test Year Revenues	8,634,017			8,634,017
Percentage Increase in Revenues	61.48%			48.56%

NOTES:

- (1) Per Surrebuttal Exhibit DLN-3
- (2) Per Direct Testimony Exhibit DLN-1; Operating Income Adjustment Modified for Interest Synchronization
- (3) Per Staff Schedule GTM-1
- (4) Per Attachment RCS-3 to Direct Testimony of RUCO Witness Ralph Smith - Anthem/Agua Fria Wastewater
- (5) Per Company Rebuttal Schedule A-1 - Anthem/Agua Fria Wastewater

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

ANTHEM WATER DISTRICT
Comparison of Staff, RUCO and Company Revenue Requirements
With Proposed Adjusted Amounts

DESCRIPTION	RECOMMENDED PER FILINGS	PULTE ADJUST. (1)	ADJUSTED AMOUNT
STAFF: (2)			
Rate Base	\$57,368,047	-\$12,666,752	\$44,701,295
Adjusted Operating Income	548,175	111,659	659,834
Required Rate of Return	7.20%		7.20%
Required Operating Income	4,130,499		3,218,493
Operating Income Deficiency	3,582,324		2,558,659
Gross Revenue Conversion Factor	1.6578		1.6578
Required Revenue Increase	5,938,777		4,241,745
Adjusted Test Year Revenues	7,483,274		7,483,274
Percentage Increase in Revenues	79.36%		56.68%
RUCO: (3)			
Rate Base	\$57,291,754	-\$12,666,752	\$44,625,002
Adjusted Operating Income	667,437	111,659	779,096
Required Rate of Return	6.77%		6.77%
Required Operating Income	3,878,652		3,021,113
Operating Income Deficiency	3,211,215		2,242,017
Gross Revenue Conversion Factor	1.6578		1.6578
Required Revenue Increase	5,323,552		3,716,815
Adjusted Test Year Revenues	7,473,818		7,473,818
Percentage Increase in Revenues	71.23%		49.73%
COMPANY: (4)			
Rate Base	\$57,422,164	-\$12,666,752	\$44,755,412
Adjusted Operating Income	528,986	111,659	640,645
Required Rate of Return	7.20%		7.20%
Required Operating Income	4,134,396		3,222,390
Operating Income Deficiency	3,605,410		2,581,745
Gross Revenue Conversion Factor	1.6538		1.6538
Required Revenue Increase	5,962,627		4,269,689
Adjusted Test Year Revenues	7,482,226		7,482,226
Percentage Increase in Revenues	79.69%		57.06%

NOTES:

- (1) Per Direct Testimony Exhibit DLN-1; Operating Income Adjustment Modified for Interest Synchronization
- (2) Per Staff Schedule GWB-1
- (3) Per Attachment RCS-2 to Direct Testimony of RUCO Witness Ralph Smith - Anthem Water
- (4) Per Company Rebuttal Schedule A-1 - Anthem Water

BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
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BOB STUMP

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
ANTHEM WATER DISTRICT AND ITS
SUN CITY WATER DISTRICT.

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
ANTHEM/AGUA FRIA WASTEWATER
DISTRICT, ITS SUN CITY WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

DIRECT TESTIMONY OF DAN L. NEIDLINGER

STAND-ALONE RATE DESIGN AND RATE CONSOLIDATION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th
Drive, Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting
firm specializing in utility rate economics.

1 Q2. DID YOU PREVIOUSLY FILE DIRECT AND SURREBUTTAL
2 TESTIMONY IN THE REVENUE REQUIREMENTS PHASE OF THIS
3 PROCEEDING?

4 A2. Yes, I did.

5
6 Q3. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

7 A3. I am appearing on behalf of the Anthem Community Council ("Anthem"). Anthem
8 has intervened in this proceeding on behalf of over 8,800 of its residents that are water and
9 wastewater customers of Arizona-American Water Company ("AAWC" or "Company").

10 Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PHASE OF
11 THE PROCEEDING?

12 A4. My testimony addresses two topics: stand-alone rate design and rate consolidation. I
13 will comment on the recommendations of both the Company and Staff on these subjects.

14
15 I. STAND-ALONE RATE DESIGN

16
17 Q5. HAVE YOU REVIEWED THE RATE DESIGN TESTIMONIES OF
18 COMPANY WITNESS BRODERICK AND STAFF WITNESS MICHLIK WITH
19 RESPECT TO THE ANTHEM WATER DISTRICT AND THE ANTHEM/AGUA
20 FRIA WASTEWATER DISTRICT?

21 A5. Yes. In my view, the current rate designs for both water and wastewater appear to be
22 reasonable but cost of service studies were not filed in this case to validate this conclusion.
23 Absent water and wastewater cost of service analyses, the across-the-board approach
24 recommended by the Company is the only logical rate adjustment mechanism available, in
25 the event that the Commission does not adopt Company-wide rate consolidation in this
26 proceeding. This approach is preferable to Staff's proposed changes to water and
27 wastewater rate designs that recommend changes without adequate foundation or support.
28

1 **Q6. WHAT ARE YOUR COMMENTS REGARDING STAFF'S**
2 **RECOMMENDED RATE DESIGNS FOR ANTHEM WATER?**

3 A6. I have two objections to Staff's proposed stand-alone water rate design. The first
4 pertains to the pricing of higher tiers of the rate structure in relationship to pricing for the
5 first tier. For instance, for the 5/8" x 3/4" meters, Staff recommends that the rate for the first
6 tier, 0-3,000 gallons, be increased from \$1.54 to \$2.00 – an increase of 30%. The
7 recommended rate for the second tier, 3,001-9,000 gallons, is \$5.00 or 207% greater than
8 the current rate of \$2.41. The recommended rate for the third tier, usage over 9,000
9 gallons, is \$7.867 or 255% greater than the current rate of \$3.08. There is no justification,
10 in my view, for this extreme tilting of the rate structure which could create significant
11 revenue stability problems for the Company.

12 The second objection is related to the proposed changes in tier break-points for the
13 larger meter sizes. These are all two-tiered rates. Staff recommends lowering the
14 breakpoint for the first tier by about 67%. For instance, the first tier break-point for a 2"
15 commercial meter in Anthem is 185,000 gallons. Staff recommends lowering the
16 breakpoint for this first tier to 66,000 gallons. These changes in tier break-points coupled
17 with the previously discussed 207% and 255% increases in first and second tier rates would
18 increase the bills for many commercial customers to levels that cannot be logically
19 supported. For instance, the current water bill for a 2" meter commercial customer using
20 200,000 gallons is \$630. Under Staff's proposed rates, the bill jumps to \$1,584 – a 251%
21 increase.

22 **Q7. DID STAFF PROVIDE ANY COST JUSTIFICATION OR OTHER SUPPORT**
23 **FOR THESE PROPOSED AND SIGNIFICANT CHANGES TO THE WATER**
24 **RATE DESIGNS FOR ANTHEM?**

25 A7. No, it did not. Staff did not prepare a cost of service study for the Anthem Water
26 District to support its rate design revisions, nor did it discuss any non-cost factors that it
27 considered in arriving at its rate proposals.
28

1 Q8. IS STAFF ALSO RECOMMENDING A MAJOR REVISION TO THE
2 RESIDENTIAL WASTEWATER RATE FOR CUSTOMERS IN THE
3 ANTHEM/AGUA FRIA WASTEWATER DISTRICT?

4 A8. Yes. The current wastewater rate for Anthem/Agua Fria residential customers is
5 comprised of a fixed monthly charge and a commodity charge based on water usage with a
6 7,000 gallon per month ceiling. Staff's proposed rate design eliminates the fixed monthly
7 charge and recommends a monthly rate based on average monthly water usage in the
8 months of January through March – a purely commodity rate. This proposed change in
9 wastewater rates for Anthem's residential customers should not be accepted, because
10 (i) winter lawns are a requirement in Anthem under various land-use restrictions, and thus
11 (ii) a large percentage of the water use in the months of January through March is turf
12 irrigation that never enters the wastewater collection system. As a result, Anthem
13 residential customers would be required to pay, under Staff's proposed rates, wastewater
14 charges on nonexistent sewerage.

15 Q9. WHAT IS YOUR RATE DESIGN RECOMMENDATION UNDER A STAND-
16 ALONE RATE STRUCTURE WITH RESPECT TO RESIDENTIAL
17 WASTEWATER RATES FOR THE ANTHEM/AGUA FRIA WASTEWATER
18 DISTRICT?

19 A9. I recommend that residential customers be billed a fixed monthly charge for
20 wastewater services. A fixed monthly charge for residential wastewater service is a
21 standard ratemaking practice for most wastewater utilities and is consistent with the
22 wastewater rates currently charged residential customers in the Company's other
23 wastewater districts. Further, as discussed under the rate consolidation section of my
24 testimony, all residential wastewater rates are based on a flat monthly charge.
25 Alternatively, in the event that the Commission does not adopt Company-wide consolidated
26 rates in this proceeding, the current fixed/commodity rate structure could be retained with
27 any rate increases applied on an across-the-board basis.
28

II. RATE CONSOLIDATION

Q10. THE COMPANY SUPPORTS RATE CONSOLIDATION BUT THE STAFF RECOMMENDS CONTINUANCE OF THE CURRENT STAND-ALONE CONFIGURATION. WHAT IS YOUR POSITION ON THIS ISSUE?

A10. In my view, the merits of rate consolidation significantly outweigh any adverse consequences of a rate consolidation process. To achieve the benefits of consolidation, however, all of the Company's water and wastewater districts should be included in the consolidation. The partial consolidation alternatives presented by Staff do not provide for any meaningful improvement over the current stand-alone system. Similarly, the current "mini-consolidation" of the Anthem and Agua Fria Wastewater districts into a single (and isolated) consolidated district makes no sense. If consolidation of all the Company districts is not accomplished in this case, the Commission should de-consolidate these wastewater districts and set separate stand-alone rates.

Q11. WHAT ARE THE MAJOR BENEFITS OF RATE CONSOLIDATION?

A11. Rate consolidation provides for the following major benefits:

1. Lower administrative costs through unified customer accounting and billing systems;
2. Reduction in rate cases and associated rate case expenses incurred by the Company, Staff, RUCO and other intervenors;
3. Elimination of distorted cost allocations among districts in rate filings - these cost imbalances abound in this case as discussed in my direct testimony on revenue requirements;
4. The implementation of standard customer service policies and related service rates and charges;
5. Improved rate stability and elimination of rate shock – an issue confronting Anthem customers in this case;
6. Reduced customer confusion with respect to differing rate schedules under one Company umbrella; and
7. The development and implementation of a targeted and comprehensive water conservation program for all of its systems.

1 Mr. Marshall Magruder, an intervenor in this case, lists 22 rate consolidation benefits on
2 Table 1, Page 12 of his early-filed rate design and rate consolidation testimony. His list
3 incorporates many of the benefits listed above as well as others that deserve some
4 consideration.

5
6 **Q12. DID THE COMPANY DISCUSS RATE CONSOLIDATION IN DIRECT**
7 **TESTIMONIES SUPPORTING ITS RATE FILING IN THIS CASE?**

8 A12. Yes. The direct testimonies of Company witnesses Thomas Broderick¹ and Paul G.
9 Townsley² support rate consolidation and discuss in some detail the beneficial effects of
10 consolidation. Mr. Townsley discussed one additional benefit not listed above that is
11 worthy of comment and support. Consolidation would allow the Company to acquire small
12 water and wastewater systems that are in disrepair and make needed plant improvements
13 without imposing rate shock on their customers.

14 **Q13. YOU SHOW LOWER ADMINISTRATIVE COSTS AS THE FIRST**
15 **BENEFIT ON YOUR LIST. PRIOR TO APPROVAL OF A CONSOLIDATION**
16 **RATE PLAN, SHOULDN'T THE COMMISSION REQUIRE THE COMPANY TO**
17 **PROVIDE A SPECIFIC COST REDUCTION PLAN THAT WOULD BE**
18 **IMPLEMENTED DURING THE CONSOLIDATION PROCESS?**

19 A13. Yes, I believe it should. It is incumbent on the Company, in my view, to identify and
20 implement tangible cost reduction benefits attributable to rate consolidation. In that regard,
21 the Commission should require the Company to provide, annually, reports describing the
22 progress on its cost reduction activities in its administrative functions.

23 / / /

24 / / /

25 / / /

26 _____

27 ¹ Revised Direct Testimony of Thomas M. Broderick, Pages 15 through 19.

28 ² Direct Testimony of Paul G. Townsley, Pages 14 through 21.

1 **Q14. HAVE YOU REVIEWED TO RATE CONSOLIDATION PLAN DISCUSSED**
2 **IN THE REBUTTAL RATE DESIGN TESTIMONY OF COMPANY WITNESS**
3 **CONSTANCE HEPPENSTALL?**

4 A14. Yes. Ms. Heppenstall has developed a detailed 3-Step plan for consolidating water
5 and wastewater rates for all of the Company's water and wastewater districts. As a starting
6 point for step increases, she has used the Company's rebuttal position on water and
7 wastewater revenue requirements on a non-consolidated basis.³ I am in general agreement
8 with the approach she has taken since it results in the consolidation of all of the Company's
9 systems. Ms. Heppenstall's 3-Step plan, however, produces some very large percentage
10 step increases and decreases that I find undesirable and unacceptable.

11 **Q15. PLEASE EXPLAIN.**

12 A15. Exhibit DLN-1, attached, shows the percentage changes in step water and
13 wastewater revenues under Ms. Heppenstall's 3-step plan compared with the percentage
14 changes under an alternative 5-step consolidation plan. As indicated on Exhibit DLN-1,
15 her 3-step plan results in water step increases as high as 31.82% for Mohave at Step 2 and
16 step decreases as high as 33.53% for Anthem at Step 3. Similarly, under her plan,
17 percentage step increases and decreases exceed 25% for the Sun City (increases) and
18 Anthem/Agua Fria (decreases) wastewater districts. I suggest an alternative 5-step
19 approach that constrains up or down percentage step adjustments to approximately 15%
20 using equal dollar adjustments for each step. Although this plan would admittedly take
21 longer to implement, it would provide for an improved smoothing of year-to-year rate
22 adjustments.

23 **Q16. HAVE YOU DEVELOPED A SPECIFIC SET OF STEP RATES TO**
24 **ACCOMPANY THIS ALTERNATIVE PLAN?**

25 A16. No, I have not as of the filing of this testimony. My plan is conceptual at this stage
26

27 ³ Company Rebuttal Water Revenue Requirements are \$71,719,121 and Rebuttal
28 Wastewater Revenue Requirements are \$29,602,049.

1 but a detailed set of step rates could be developed with Ms. Heppenstall's assistance should
2 the Commission desire to further explore this approach.

3
4 **Q17. MS. HEPPENSTALL'S WATER RATE DESIGN CALLS FOR A FIVE TIER**
5 **COMMODITY RATE COMPONENT. DO YOU AGREE WITH THIS INCREASE**
6 **IN TIERS?**

7 A17. Yes. The increase in commodity tiers is needed to address the variation in customer
8 usage patterns among the various water districts. Without this change, large intra-class
9 revenue subsidies would be experienced.

10 **Q18. DO YOU AGREE WITH MS. HEPPENSTALL'S PROPOSED FLAT**
11 **MONTHLY RATE FOR RESIDENTIAL WASTEWATER SERVICE?**

12 A18. Yes. As earlier discussed in the stand-alone rate design section of my testimony, a
13 flat monthly rate is the rate design standard that should be adopted under rate consolidation.

14
15 **Q19. DOES THIS CONCLUDE YOUR TESTIMONY ON STAND-ALONE RATE**
16 **DESIGN AND RATE CONSOLIDATION?**

17 A19. Yes, it does.
18
19
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25
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27
28

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & AGUA/FRIA WASTEWATER DISTRICTS

Comparison of Company Rate Consolidation Plan With Alternative Plan

DISTRICT	PERCENTAGE CHANGES IN STEP REVENUES (1)				
	STEP 1	STEP 2	STEP 3	STEP 4	STEP 5
WATER:					
Company Phase-In Plan: (2)					
Sun City	15.53%	13.49%	11.87%		
Sun City West	-12.70%	0.00%	0.00%		
Agua Fria	-6.50%	0.00%	0.00%		
Anthem	0.30%	-28.70%	-33.53%		
Tubac	-8.36%	-20.00%	-16.67%		
Mohave	9.00%	31.82%	21.83%		
Havasu	-8.66%	-6.46%	-8.44%		
Paradise Valley	4.81%	5.08%	0.00%		
Alternative Phase-In Plan: (3)					
Sun City	9.34%	8.54%	7.87%	7.29%	6.80%
Sun City West	-2.54%	-2.61%	-2.68%	-2.75%	-2.83%
Agua Fria	-1.21%	-1.22%	-1.24%	-1.26%	-1.27%
Anthem	-10.49%	-11.72%	-13.28%	-15.31%	-18.08%
Tubac	-7.78%	-8.44%	-9.21%	-10.15%	-11.30%
Mohave	15.01%	13.05%	11.54%	10.35%	9.38%
Havasu	-4.35%	-4.55%	-4.77%	-5.01%	-5.27%
Paradise Valley	2.03%	1.99%	1.95%	1.91%	1.87%
WASTEWATER:					
Company Phase-In Plan: (2)					
Sun City	25.73%	30.28%	12.18%		
Sun City West	9.40%	0.00%	0.00%		
Anthem/Agua Fria	-16.81%	-25.11%	-17.79%		
Mohave	-26.18%	-10.50%	-1.81%		
Alternative Phase-In Plan: (3)					
Sun City	16.75%	14.35%	12.55%	11.15%	10.03%
Sun City West	1.88%	1.84%	1.81%	1.78%	1.75%
Anthem/Agua Fria	-9.76%	-10.81%	-12.12%	-13.79%	-16.00%
Mohave	-7.03%	-7.56%	-8.17%	-8.90%	-9.77%

NOTES:

- (1) Step Increases Beginning With Company Total Non-Consolidated Water Revenues of \$71,719,121 and Total Non-Consolidated Wastewater Revenues of \$29,602,049 - Both are Company Rebuttal Revenue Levels.
- (2) Rebuttal Rate Design Testimony of Company Witness Constance Heppenstall - Company Rebuttal Revenues With Rate Consolidation Model v3.
- (3) Assumes Equal Step Adjustments over 5 Steps

1 ORIGINAL and fifteen (15) copies of the
2 foregoing filed this 3rd day of May, 2010, with:

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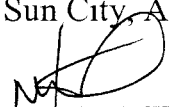
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BEFORE THE ARIZONA CORPORATION COMMISSION

2010 MAY 18 P 4: 25

AZ CORP COMMISSION
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COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM WATER
DISTRICT AND ITS SUN CITY WATER
DISTRICT.

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM/AGUA
FRIA WASTEWATER DISTRICT, ITS SUN CITY
WASTEWATER DISTRICT AND ITS SUN CITY
WEST WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

SUMMARY OF DIRECT TESTIMONY
OF DAN L. NEIDLINGER

STAND-ALONE RATE DESIGN AND RATE CONSOLIDATION

EXECUTIVE SUMMARY – DIRECT TESTIMONY

Dan L. Neidlinger testifies that:

The Anthem Community Council (“Anthem”) represents over 8,800 of its residents that are water and wastewater customers of Arizona-American Water Company (“AAWC” or “Company”). In connection with AAWC’s application to permanently increase rates for certain of the Company’s water and wastewater districts in Arizona, the Arizona Corporation Commission’s staff (“Staff”) has recommended a stand-alone rate design and AAWC has recommended a consolidated rate design. The focus of my testimony addresses these recommendations.

Stand-Alone Rate Design

I have two objections to Staff’s proposed stand-alone water rate design for the Anthem Water District. First, there is no justification for the extreme tilting of the rate structure which could create significant revenue stability problems for the Company. For instance, for the 5/8” x 3/4” meters, Staff’s recommended rate (i) for the first tier, 0-3,000 gallons, results in an increase from \$1.54 to \$2.00 – or 30%, (ii) for the second tier, 3,001-9,000 gallons, is \$5.00 or 207% greater than the current rate of \$2.41, (iii) for the third tier, usage over 9,000 gallons, is \$7.867 or 255% greater than the current rate of \$3.08. Second, the proposed changes in tier break-points for the larger meter sizes, when coupled with Staff’s proposed 207% and 255% rate increases will increase the bills for many commercial customers to levels that cannot be logically supported. For instance, the water bill for a 2” meter commercial customer using 200,000 gallons would increase 251%. Staff did not prepare a cost of service study for the Anthem Water District to support its rate design revisions, nor did it discuss any non-cost factors that it considered in arriving at its rate proposals.

The current wastewater rate for Anthem/Agua Fria Wastewater District residential customers is comprised of a fixed monthly charge and a commodity charge based on water usage with a 7,000 gallon per month ceiling. Staff’s proposed rate design eliminates the fixed monthly charge and recommends a monthly rate based on average monthly water usage in the months of January through March – a purely commodity rate. This proposed change should not be accepted because it would require Anthem wastewater customers to pay wastewater charges on nonexistent

1 sewerage. Instead, I recommend that residential customers be billed a fixed monthly charge for
2 wastewater services which is a standard ratemaking practice for most wastewater utilities and is
3 consistent with the wastewater rates currently charged to residential customers in the Company's
4 other wastewater districts.

5 Alternatively, in the event that the Commission does not adopt Company-wide consolidated
6 rates in this proceeding, the current fixed/commodity rate structure could be retained with any rate
7 increases applied on an across-the-board basis. Absent water and wastewater cost of service
8 analyses, this across-the-board approach recommended by Company witness Thomas Broderick is
9 the only logical rate adjustment mechanism available and it is preferable to Staff's proposed
10 changes to water and wastewater rate designs that recommend changes without adequate
11 foundation or support.

12 Consolidated Rate Design

13 In my view, the merits of rate consolidation significantly outweigh any adverse
14 consequences of a rate consolidation process. To achieve the benefits of consolidation, however,
15 all of the Company's water and wastewater districts should be included in the consolidation. The
16 partial consolidation alternatives presented by Staff do not provide for any meaningful
17 improvement over the current stand-alone system. Similarly, the current "mini-consolidation" of
18 the Anthem and Agua Fria Wastewater districts into a single (and isolated) consolidated district
19 makes no sense. If consolidation of all the Company districts is not accomplished in this case, the
20 Commission should de-consolidate these wastewater districts and set separate stand-alone rates.

21 In addition to the benefits articulated by Company witnesses Thomas Broderick and Paul
22 Townsley and by intervenor Marshall Magruder, the major benefits of rate consolidation, include
23 (i) lower administrative costs through unified customer accounting and billing systems; (ii)
24 reduction in rate cases and associated expenses; (iii) elimination of distorted cost allocations
25 among districts in rate filings; (iv) the implementation of standard customer service policies and
26 related service rates and charges; (v) improved rate stability and elimination of rate shock; (vi)
27 reduced customer confusion with respect to the Company's currently differing rate schedules; (vii)

1 the development and implementation of a targeted and comprehensive water conservation program
2 for all of its systems.

3 Company Witness Constance Heppenstall developed a three-step plan for consolidating
4 water and wastewater rates for all of the Company's water and wastewater districts. While I am in
5 general agreement with her approach since it results in the consolidation of all of the Company's
6 systems, her plan produces some very large percentage step increases and decreases that I find
7 undesirable and unacceptable. I suggest an alternative five-step approach that constrains up or
8 down percentage step adjustments to approximately 15% using equal dollar adjustments for each
9 step. Although this plan, which is conceptual at this stage, would admittedly take longer to
10 implement, it would provide for an improved smoothing of year-to-year rate adjustments.

1 ORIGINAL and fifteen (15) copies of the
2 foregoing filed this 18th day of May, 2010, with:

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4 Arizona Corporation Commission
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**EPCOR WASTEWATER
INTERIM CONSOLIDATED RESIDENTIAL RATES
2-STEP PHASE IN**

DESCRIPTION	MONTHLY WASTEWATER FLAT RATES		
	PRESENT RATES (1)	STEP 1 RATES (2)	STEP 2 RATES (3)
Sun City Residential	\$18.11	\$20.83	\$23.95
Sun City West Residential	30.96	32.10	33.20
Anthem Residential - Average Usage	51.80	47.11	41.36
Agua Fria Residential - Average Usage	108.34	98.54	86.50
Mohave Residential	82.79	75.30	66.10
		STEP INCREASES (DECREASES)	
Sun City:			
Step Increase		\$2.72	\$3.12
Percentage Increase		15.02%	14.98%
Sun City West:			
Step Increase		\$1.14	\$1.10
Percentage Increase		3.68%	3.43%
Anthem:			
Step Decrease		-\$4.69	-\$5.75
Percentage Decrease		-9.05%	-12.21%
Agua Fria:			
Step Decrease		-\$9.80	-\$12.04
Percentage Decrease		-9.05%	-12.22%
Mohave:			
Step Decrease		-\$7.49	-\$9.20
Percentage Decrease		-9.05%	-12.22%

NOTES:

- (1) Present Rates for Anthem and Agua Fria are Currently Approved Step3 Rates Effective January 1, 2015
- (2) Interim Rates Effective January 1, 2015 or Other Later Date Pursuant to a Commission Decision
- (3) Interim Rates Effective January 1, 2016 or Other Later Date Pursuant to a Commission Decision

**EPCOR WASTEWATER
COMPARISON OF RATE IMPACT OF PLANT IMPROVEMENT PROGRAM
STAND-ALONE VS. CONSOLIDATED RATES**

<u>WASTEWATER DISTRICT</u>	<u>PRESENT</u>	<u>5 YEAR</u>	<u>ESTIMATED</u>	<u>PERCENTAGE INCREASE</u>	
	<u>REVENUES</u>	<u>PLANT</u>	<u>REVENUE</u>	<u>STAND-ALONE</u>	<u>CONSOLIDATED</u>
	<u>(1)</u>	<u>IMPROVEMENTS</u>	<u>REQUIREMENT</u>		
	<u>(2)</u>	<u>(3)</u>			
Sun City	\$7,604,408	\$9,300,000	\$1,573,560	20.69%	11.90%
Sun City West	6,926,844	4,900,000	829,080	11.97%	11.90%
Anthem	5,715,495	5,300,000	896,760	15.69%	11.90%
Agua Fria	6,021,686			0.00%	11.90%
Mohave	1,454,575			0.00%	11.90%
Total EPCOR Wastewater	<u>\$27,723,008</u>	<u>\$19,500,000</u>	<u>\$3,299,400</u>	<u>11.90%</u>	<u>11.90%</u>

NOTES:

- (1) Residential and Commercial Revenues Excluding Wholesale and Effluent Sales
- (2) Plant Improvement Projections Per the Direct Testimony of EPCOR Witness Shawn Bradford
- (3) Incremental Revenue Requirement on Plant Using Estimated Incremental Rate of 16.92%